New international bond issues

new issues in period, in millions of dollars

	1979	1980	1981	1982			Jan-Oct	
				Aug	Sepr	Octp	1982	1981
By type:								
Eurobonds, total	**18 726**	**23 970**	**31 616**	**2 138**	**3 725**	**3 892**	**43 574**	**22 774**
by category of borrower								
U.S. companies	2 872	4 107	6 178	1 176	1 428	659	11 970	4 308
Foreign companies	7 183	9 032	12 882	448	652	1 445	10 806	9 447
State enterprises	4 524	5 839	7 496	256	984	1 207	12 323	5 135
Governments	2 433	3 045	2 629	230	234	398	5 548	1 658
International organizations	1 714	1 947	2 431	28	427	183	2 927	2 226
by currency of denomination								
U.S. dollar	12 565	16 427	26 830	1 765	3 095	3 300	38 191	19 571
German mark	3 626	3 607	1 277	241	343	72	1 981	555
Dutch guilder	531	1 043	529	92	37	63	587	422
Canadian dollar	425	279	634	40	—	110	1 148	191
European composite units	253	65	309	—	130	70	467	237
Other	1 326	2 549	2 037	—	120	277	1 180	1 798
Foreign bonds outside the United States, total	**17 749**	**14 521**	**13 817**	**1 335**	**1 246**	**1 411**	**17 610**	**10 073**
by category of borrower								
U.S. companies	217	307	592	76	34	92	1 873	400
Foreign companies	3 463	3 157	3 384	223	267	312	3 473	2 777
State enterprises	3 284	2 830	3 701	470	450	296	4 759	2 564
Governments	7 663	4 086	2 762	96	148	291	3 224	1 969
International organizations	3 122	4 141	3 378	470	347	420	4 281	2 363
by currency of denomination								
German mark	5 379	4 839	1 310	79	117	207	2 490	818
Swiss franc	9 777	7 617	8 285	739	626	851	9 822	6 070
Dutch guilder	75	259	481	129	50	99	847	399
Japanese yen	1 833	1 088	2 457	250	296	183	2 992	1 911
Other	685	718	1 284	138	157	71	1 459	875
Foreign bonds in the United States, total	**4 515**	**3 429**	**7 552**	**1 655**	**700**	**450**	**5 747**	**5 112**
by category of borrower								
Canadian entities	2 193	2 136	4 630	825	100	100	3 281	3 599
International organizations	1 100	550	1 375	550	400	250	1 700	500
Other	1 222	743	1 547	280	200	100	766	1 013
By country of borrower:								
Industrial countries	**31 886**	**32 732**	**40 978**	**3 990**	**4 630**	**4 567**	**53 799**	**29 225**
Australia	593	539	991	—	455	130	2 055	345
Austria	1 218	1 859	1 557	177	—	105	1 629	1 264
Canada	4 197	3 797	10 648	1 210	685	821	11 473	7 605
Denmark	752	1 125	695	24	74	67	962	461
Finland	699	392	672	119	—	126	714	428
France	2 106	2 820	3 156	313	477	661	6 695	2 516
Italy	338	904	1 108	20	20	18	1 017	733
Japan	5 775	5 309	6 928	346	682	522	6 559	5 279
Netherlands	832	1 585	630	28	18	309	770	441
New Zealand	553	293	1 107	—	139	106	983	868
Norway	1 955	892	530	190	93	200	782	435
Sweden	1 530	3 244	2 050	46	186	100	1 962	1 320
United Kingdom	1 181	1 733	1 408	—	200	273	785	839
United States	6 767	5 587	6 770	1 252	1 462	751	13 843	4 708
Developing countries	**3 093**	**2 485**	**4 769**	**90**	**67**	**333**	**4 359**	**3 595**
Non-OPEC countries	2 675	1 942	4 338	90	30	208	3 369	3 259
Brazil	930	349	60	—	—	18	91	60
Korea	44	68	323	—	30	20	142	283
Mexico	363	544	3 012	30	—	—	1 919	2 328
OPEC countries	418	543	431	—	37	125	990	336
Venezuela	55	398	291	—	—	—	385	221
Communist countries	**75**	**65**	**75**	**—**	**—**	**—**	**65**	**50**
International organizations	**5 936**	**6 638**	**7 163**	**1 048**	**974**	**853**	**8 708**	**5 089**
TOTAL	**40 990**	**41 920**	**52 985**	**5 128**	**5 671**	**5 753**	**66 931**	**37 959**

Central bank discount rates

	1978	1979	1980	1981	1982			Current	
	end Dec	end Dec	end Dec	end Dec	end Mar	end Jun	end Sep	Oct 29 1982	effective since
United States	9.50	12.00	13.00	12.00	12.00	12.00	10.00	9.50	Oct 8, 82
Canada	10.75	14.00	17.36	14.66	15.11	16.58	12.98	11.46	Oct 28, 82
Japan	3.50	6.25	7.25	5.50	5.50	5.50	5.50	5.50	Dec 11, 81
United Kingdom	12.50	17.00	14.00	14.37	13.00	12.50	10.00	9.50	Oct 12, 82
Belgium	6.00	10.50	12.00	15.00	13.00	14.00	13.00	12.50	Oct 21, 82
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	3.00	0.00	7.50	7.50	7.50	7.50	7.00	6.00	Oct 22, 82
Italy	10.50	15.00	16.50	19.00	19.00	19.00	18.00	18.00	Aug 24, 82
Netherlands	6.50	9.50	8.00	9.00	8.00	8.00	7.00	6.00	Oct 22, 82
Austria	4.50	3.75	6.75	6.75	6.75	6.75	6.25	5.75	Oct 22, 82
Denmark	8.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	Oct 27, 80
Finland	7.25	8.50	9.25	9.25	9.25	8.50	8.50	8.50	Jun 1, 82
Ireland	11.85	16.40	12.75	17.15	18.30	18.30	18.30	14.55	Oct 1, 82
Norway	7.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	Nov 30, 79
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	6.50	9.00	12.00	11.00	10.00	10.00	10.00	10.00	Mar 10, 82
Switzerland	1.00	2.00	3.00	5.00	5.50	5.50	5.00	5.00	Aug 27, 82
Argentina	108.19	89.90	87.01	98.50	99.87	87.23	128.54	128.54	Sep 30, 82
Korea	14.50	14.50	15.50	10.50	5.00	5.00	5.00	5.00	Mar 29, 82
New Zealand	10.50	13.00	14.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
Philippines	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Map 19, 78
Singapore	4.50	6.75	10.50	9.50	7.00	7.00	7.00	7.00	Feb 19, 82
South Africa	8.50	7.00	7.00	13.50	13.50	13.50	13.50	13.50	Dec 15, 81
Venezuela	7.50	11.00	13.00	14.00	14.00	14.00	14.00	14.00	Aug 26, 81

Day-to-day money rates

monthly averages

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	10.03	13.78	18.90	12.37	14.68	14.94	14.45	14.15	12.59	10.12	10.20
Canada	9.44	13.83	15.61	14.53	14.98	14.81	15.22	15.55	16.16	15.03	13.58
Japan	4.57	6.02	9.49	6.70	6.68	7.16	7.17	7.19	7.19	7.18	7.08
Australia	8.40	7.84	9.51	12.84	15.17	16.39	15.51	15.01	13.39	15.09	13.23
United Kingdom	10.00	14.87	13.00	9.13	12.19	9.13	9.13	8.31	10.10	9.75	9.80
Belgium	6.73	10.65	9.66	12.78	10.27	12.77	12.95	11.68	13.13	11.76	10.52
France	6.67	12.17	10.87	15.46	15.72	16.81	16.41	15.98	15.05	14.58	14.11
Germany	3.61	9.15	9.13	10.65	9.84	9.47	9.08	9.00	9.03	8.74	7.96
Italy	11.00	16.00	17.50	20.63	20.38	20.50	20.50	20.41	20.13	19.69	n.a.
Netherlands	10.00	15.67	6.37	10.67	7.50	7.94	8.87	7.63	8.94	8.63	7.33
Austria	5.37	8.50	11.50	7.50	8.75	9.50	9.75	9.62	10.50	9.25	7.75
Finland	9.29	13.53	12.50	11.30	11.56	11.50	11.50	11.50	11.50	11.50	11.45
Ireland	12.12	16.88	13.31	16.88	20.25	18.75	19.25	18.94	18.25	15.62	16.00
Spain	16.75	9.61	16.74	18.73	15.19	12.42	17.84	22.34	17.29	13.96	13.78
Sweden	6.26	11.99	11.41	13.62	13.70	13.15	13.99	14.65	14.98	14.47	15.22
Switzerland	0.00	1.25	5.75	3.38	2.80	2.75	1.25	1.50	1.50	1.50	2.25
Argentina	n.a.	78.22	70.84	84.93	107.53	136.67	91.51	74.82	80.72	101.34	127.09
Brazil	42.08	37.51	62.71	103.74	103.97	91.64	99.86	99.86	104.43	130.32	108.40
Hong Kong	9.67	14.19	14.05	10.75	15.27	15.07	14.75	13.50	11.75	8.25	9.37
Korea	15.00	15.00	14.82	14.40	11.86	12.00	12.00	13.35	13.39	13.23	13.39
Philippines	13.22	16.25	15.70	14.70	12.00	13.39	14.63	11.37	8.20	10.56	n.a.
Singapore	4.98	10.17	10.23	3.96	7.68	9.63	9.63	6.39	6.44	7.56	n.a.
South Africa	7.11	3.81	5.60	12.34	14.29	14.20	14.36	14.62	14.94	14.72	14.85
Eurodollars	10.80	14.41	19.22	12.29	14.76	14.88	14.63	14.13	12.57	10.10	10.52

Treasury bill rates

bond-equivalent yields, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	9.42	12.39	14.87	11.90	13.53	12.88	12.00	13.15	10.63	8.01	7.64
Canada	10.46	13.66	17.01	14.41	14.86	14.98	15.18	16.33	15.25	13.70	12.73
Japan	3.39	5.68	5.93	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42
Australia	8.35	9.31	12.17	13.27	16.73	19.29	14.88	15.47	14.61	14.43	11.62
United Kingdom	12.01	16.45	13.45	15.31	12.97	13.37	13.17	12.70	11.58	10.26	9.99
Belgium	9.25	14.40	12.75	16.00	14.50	15.00	15.00	15.75	14.50	13.75	12.75
Ireland	11.83	16.37	12.84	17.35	18.32	18.28	18.25	18.05	16.76	14.64	14.48
Italy	12.81	15.62	16.87	21.36	19.70	19.81	20.05	19.29	19.27	19.01	17.72
Netherlands	9.50	12.75	8.00	9.75	7.00	8.88	8.75	8.19	8.75	7.38	7.00
Spain	13.00	15.00	17.20	15.83	14.34	14.89	16.09	16.57	16.49	15.53	15.15
Sweden	5.84	9.74	12.87	9.20	9.22	9.22	9.22	9.22	10.25	10.25	10.26
Argentina	82.55	71.04	66.19	77.10	82.55	93.45	56.00	53.46	108.31	133.36	133.36
Brazil	49.96	31.68	110.60	110.21	113.53	115.56	110.52	112.91	122.71	131.87	135.53
Korea	17.01	19.53	16.35	16.00	14.40	14.40	14.40	14.40	14.40	14.40	14.40
Mexico	12.75	17.89	27.73	33.22	35.16	38.48	n.a.	n.a.	53.81	n.a.	n.a.
New Zealand	10.50	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25
Philippines	12.08	12.63	12.74	13.40	14.15	14.19	14.64	14.75	14.87	14.18	n.a.
Singapore	4.01	6.18	6.77	3.03	3.03	3.50	3.93	3.93	3.62	3.30	n.a.
South Africa	7.61	4.30	6.31	14.55	16.49	16.45	16.57	17.06	17.12	16.91	16.12

Representative money-market rates

bond-equivalent yields on major short-term (mostly 3-4-month) money-market instruments, other than Treasury bills, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	10.57	13.70	17.62	12.78	14.24	14.24	13.58	15.19	11.98	9.61	10.26
Canada	10.62	14.15	17.50	15.25	16.15	15.45	15.90	17.20	15.70	14.20	12.95
Japan	4.64	8.01	9.80	6.30	6.42	6.67	7.08	7.19	7.02	7.22	7.05
Australia	9.10	10.30	13.00	16.00	20.50	22.00	18.25	19.10	16.95	17.00	14.10
United Kingdom	12.50	17.00	14.75	15.69	13.56	13.62	13.44	13.00	11.94	10.75	10.56
Belgium	9.25	14.45	13.10	16.00	14.25	15.00	14.75	15.75	14.75	13.90	13.00
France	6.44	12.62	11.56	15.25	15.87	16.63	16.13	14.87	14.87	14.38	13.81
Germany	3.70	8.70	10.20	10.50	9.50	9.15	9.15	9.40	9.30	8.30	8.00
Ireland	13.00	18.12	13.63	18.50	20.50	20.00	20.00	19.88	17.50	15.62	15.38
Italy	11.37	17.12	17.37	21.00	20.62	20.50	20.50	20.38	20.00	18.75	18.50
Netherlands	10.50	13.00	9.37	11.00	8.25	8.25	8.75	8.87	9.12	8.13	8.00
Spain	22.80	13.20	17.40	15.52	13.56	14.61	15.62	18.02	17.32	15.13	13.91
Switzerland	0.50	6.12	7.50	10.12	6.00	4.75	4.38	5.12	4.37	4.00	4.62
Hong Kong	11.82	14.37	17.69	14.18	15.13	15.13	14.75	14.25	12.75	10.75	10.00
Korea	17.01	19.53	16.35	15.69	14.56	12.00	12.50	8.00	8.00	8.00	8.00
New Zealand	12.00	16.00	14.25	16.05	17.85	18.85	17.30	17.25	17.25	17.50	17.75
Philippines	11.48	10.41	15.01	17.61	17.20	17.11	17.49	17.03	17.06	16.69	n.a.
Singapore	7.38	10.12	14.12	7.81	9.44	9.81	9.94	9.12	8.19	8.31	n.a.
South Africa	7.85	4.72	7.12	15.47	18.85	17.86	17.32	17.92	18.19	17.59	17.10

Commercial bank deposit rates

at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	10.90	13.55	16.25	12.62	13.75	13.75	13.00	14.25	11.00	10.10	9.75
Canada	10.45	14.05	17.00	15.20	16.05	15.40	15.80	17.10	15.60	14.05	12.85
Japan	2.50	8.37	9.00	6.50	6.70	7.05	7.03	7.24	7.20	7.35	7.30
Australia	8.50	10.25	12.71	15.65	19.99	21.08	18.16	18.25	16.64	17.51	14.69
United Kingdom	12.25	16.81	14.87	15.69	13.62	13.65	13.37	13.00	11.81	10.63	10.81
Belgium	9.87	14.50	12.63	15.50	14.38	14.50	14.37	15.12	14.38	13.13	12.75
France	6.50	12.50	11.25	9.16	9.28	9.79	9.60	9.40	8.97	8.75	8.53
Germany	3.50	7.75	8.00	9.50	8.50	8.50	8.25	8.50	8.25	7.00	7.00
Italy	12.50	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	11.62	13.50	9.50	11.00	9.00	9.00	8.75	8.75	8.87	8.13	7.88
Austria	6.75	8.50	11.25	9.63	9.00	9.00	8.50	8.50	8.50	8.62	8.25
Denmark	7.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Finland	3.25	4.25	5.00	5.00	5.00	5.00	5.00	4.25	4.25	4.25	4.25
Ireland	12.75	17.87	13.63	18.38	20.00	20.00	19.88	19.50	17.37	15.50	15.25
Norway	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Spain	4.50	4.50	4.50	11.78	12.02	12.12	12.19	12.06	12.02	12.44	n.a.
Sweden	6.25	8.75	9.75	10.25	9.50	9.50	9.50	9.50	9.50	9.50	9.50
Switzerland	0.12	4.75	7.50	8.75	5.00	3.75	3.25	5.25	3.50	3.50	3.25
Argentina	86.63	72.64	72.00	86.76	106.40	92.00	70.00	85.89	60.83	60.83	85.16
Brazil	58.27	55.55	96.49	110.05	105.44	107.50	108.50	109.15	113.90	n.a.	n.a.
Hong Kong	4.50	9.25	13.00	12.50	12.50	12.50	11.50	11.50	11.00	9.00	9.00
Korea	15.00	15.00	14.82	14.40	12.00	12.00	12.00	7.60	7.60	7.60	7.60
Mexico	12.00	16.75	26.15	31.81	33.68	35.85	n.a.	n.a.	51.60	n.a.	n.a.
New Zealand	12.00	15.90	13.50	15.50	17.25	18.75	16.50	16.50	16.50	16.50	16.50
Philippines	8.50	10.50	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	7.31	10.31	13.19	7.50	8.44	8.75	9.31	9.00	7.75	8.00	n.a.
South Africa	7.30	4.82	7.87	14.75	17.50	17.55	17.05	17.75	17.87	17.17	16.50
Venezuela	7.25	15.00	16.00	14.75	15.25	15.50	15.50	15.50	16.00	15.50	14.50

Commercial bank lending rates to prime borrowers

at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	11.75	15.25	21.50	15.75	16.50	16.50	16.50	16.50	15.50	13.50	13.00
Canada	11.50	15.00	18.25	16.50	17.00	17.00	17.00	18.25	17.25	15.50	15.00
Japan	4.50	6.51	8.16	6.95	6.42	6.38	6.36	6.34	6.40	6.50	6.50
Australia	11.00	10.75	13.50	15.75	16.50	17.50	17.50	17.50	17.50	17.50	17.00
United Kingdom	13.50	18.00	15.00	14.50	13.00	13.00	13.00	12.50	12.00	10.50	10.00
Belgium	10.00	15.25	15.75	18.00	17.00	17.50	17.50	17.50	17.50	16.75	16.00
France	9.80	12.50	12.25	14.00	14.00	14.00	14.00	14.00	13.75	13.25	13.25
Germany	5.50	9.75	11.50	13.00	12.00	12.00	11.50	11.50	11.50	11.50	10.50
Italy	15.00	19.50	20.50	22.50	21.75	21.75	21.75	21.75	21.75	20.75	20.75
Netherlands	12.00	15.00	10.75	12.00	9.25	9.75	9.50	9.75	10.00	8.75	8.75
Austria	8.75	8.50	12.50	13.50	13.50	13.00	13.00	12.25	12.25	12.25	11.50
Denmark	10.00	13.75	13.75	15.00	15.00	15.00	15.00	15.00	15.50	15.50	15.50
Finland	7.87	9.06	9.83	9.84	9.79	9.78	9.77	9.06	9.04	8.99	n.a.
Ireland	13.75	16.00	14.50	17.25	19.25	19.25	19.25	19.25	19.25	16.50	16.50
Norway	11.00	11.00	12.50	13.75	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Spain	9.00	9.00	18.50	17.04	15.75	16.91	16.64	18.96	19.50	17.82	15.03
Sweden	8.50	10.75	11.75	13.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Switzerland	5.00	5.00	5.75	8.00	7.50	7.50	7.50	7.00	7.00	6.50	6.50
Argentina	86.75	80.00	77.00	92.60	106.67	106.45	86.26	89.00	73.00	73.00	97.33
Brazil	64.34	59.60	96.45	138.09	142.12	145.35	138.89	141.04	143.19	151.80	151.80
Hong Kong	8.75	14.50	17.00	16.00	16.00	16.00	15.00	15.00	14.00	12.00	12.00
Korea	18.50	18.50	19.50	16.50	13.50	13.50	13.50	10.00	10.00	10.00	10.00
Mexico	17.50	19.00	24.25	31.81	33.67	34.39	36.26	54.01	61.39	n.a.	n.a.
New Zealand	9.75	11.75	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
Philippines	14.00	16.00	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	7.65	9.50	13.60	11.83	9.98	10.18	10.98	10.98	10.70	10.25	n.a.
South Africa	11.50	9.50	9.50	17.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Venezuela	10.25	13.00	15.00	15.50	16.00	16.50	16.50	16.50	17.00	16.50	16.00

Domestic government bond yields

long-term issues, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	9.00	10.20	11.46	14.33	13.81	13.50	13.57	14.14	13.68	12.46	11.50
Canada	9.68	11.32	12.69	15.27	15.06	14.75	14.72	16.03	15.62	13.96	13.48
Japan	6.40	8.63	9.04	8.32	7.94	7.98	8.31	8.64	8.49	8.41	8.46
Australia	8.80	10.08	13.00	15.00	16.50	16.50	16.50	16.50	16.50	16.25	14.50
United Kingdom	12.75	13.83	13.05	15.02	13.06	13.35	13.07	13.08	13.05	11.20	10.74
Belgium	8.80	11.13	13.04	13.99	13.93	13.66	13.56	13.59	13.13	13.13	13.20
France	9.94	12.59	14.31	16.44	16.35	16.29	16.13	15.98	15.96	15.78	15.76
Germany	6.65	7.91	9.19	9.71	9.31	8.79	8.83	9.33	9.14	8.79	8.00
Italy	13.04	14.00	16.23	21.39	20.07	20.22	20.77	20.78	20.77	20.12	19.15
Netherlands	8.48	9.29	10.48	11.28	10.38	10.08	10.29	10.53	10.50	10.24	10.00
Austria	7.91	8.20	9.62	10.37	10.61	10.30	10.03	10.01	10.01	10.04	n.a.
Denmark	17.27	18.28	19.98	20.91	22.36	22.41	22.58	22.78	22.29	22.72	22.83
Finland	9.19	9.58	10.42	10.98	11.04	11.04	11.12	10.84	10.74	10.59	10.64
Ireland	13.44	16.64	15.63	18.28	18.83	18.28	18.28	18.58	17.33	15.93	15.17
Norway	8.19	10.04	10.44	12.37	13.21	13.21	13.26	12.95	12.95	13.16	13.27
Spain	n.a.	n.a.	n.a.	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Sweden	10.09	11.22	12.61	12.80	12.78	12.82	12.79	13.00	13.18	13.23	13.27
Switzerland	3.03	4.20	4.63	5.40	5.15	5.01	4.98	5.19	4.90	4.64	4.43
Argentina	112.18	47.94	36.84	107.98	80.10	69.25	62.77	97.25	151.14	309.96	188.74
New Zealand	10.02	12.98	12.99	12.55	12.98	12.92	12.97	12.99	12.97	n.a.	n.a.
Philippines	13.40	13.20	13.40	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
South Africa	9.72	9.32	11.81	13.62	14.30	14.22	14.15	14.49	14.70	14.09	12.34
Venezuela	7.24	7.29	7.39	12.50	12.25	12.50	12.75	13.00	13.25	13.25	13.25

Domestic corporate bond yields

long-term issues, at or near end of month

	1978	1979	1980	1981	1982						
	Dec	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep
United States	9.25	10.75	13.00	15.50	15.38	15.13	15.00	15.75	15.25	13.50	12.88
Canada	10.34	12.07	13.62	16.48	16.85	16.65	16.82	17.80	17.27	15.99	14.78
Japan	6.94	8.34	8.60	7.70	7.34	7.43	7.42	7.90	7.90	7.99	8.05
Australia	10.25	11.65	14.25	16.50	17.50	17.50	17.50	17.50	17.75	17.50	16.75
United Kingdom	13.53	14.96	14.21	16.55	14.60	14.86	14.60	14.62	13.86	12.53	12.51
France	10.27	12.92	15.23	17.33	16.99	17.02	16.80	16.67	16.67	16.61	16.83
Germany	6.80	8.20	9.50	10.50	9.90	9.40	9.10	9.30	9.50	9.40	9.30
Netherlands	8.62	9.95	10.71	11.03	10.40	10.16	10.21	10.51	10.65	10.32	10.19
Norway	8.37	10.53	11.24	13.36	14.06	14.06	12.40	12.90	12.90	14.14	14.94
Spain	13.49	14.20	14.82	14.76	15.98	16.40	16.72	17.98	17.42	17.86	18.36
Sweden	10.03	10.21	11.95	12.94	12.74	12.89	12.91	12.87	12.90	12.92	12.97
Switzerland	4.85	5.53	5.63	6.30	6.20	5.99	5.82	6.05	6.05	6.12	6.08
Korea	22.60	27.80	28.20	27.00	20.34	18.70	17.10	16.40	13.90	14.00	15.00
Venezuela	12.43	14.55	16.15	17.00	17.50	17.50	17.75	17.75	18.00	17.50	17.50

Key to data in tables

I. International markets

Definitions

An *international bond* issue is one sold outside the country of the borrower. It may be either a Euro-bond issue or a foreign bond issue.

A *Euro-bond* issue is one underwritten by an international syndicate and sold principally in countries other than the country of the currency in which the issue is denominated.

A *foreign bond* issue is one underwritten by a syndicate composed of members from one country, sold principally in that country, and denominated in the currency of that country.

A *Euro-currency bank credit* is a loan in a currency which is not native to the country in which the bank office making the loan is located.

Data on *new international bond issue volume* include all publicly announced issues with an original maturity of three years or more, whether publicly or privately placed, but exclude those where the investor is a central bank, monetary authority, or government.

Data on *new Euro-currency bank credit volume* include all publicly announced loans with an original maturity of one year or more. A loan is included in the period in which the lending banks make a commitment covering the amount and terms of the loan to the borrower.

Categories of borrower

U.S. companies include both parent companies and their financing affiliates, either domestic or foreign.

Other companies include private companies domiciled outside the United States and their affiliates.

State enterprises include public agencies.

Governments include central and local governments.

Country of borrower

The country of the borrower is the residence of the borrowing entity, except where the entity is a financing vehicle, in which case the residence of the parent company and or guarantor is used.

International bond yields

Yields are calculated to the nearest day of maturity. Interest on bonds with annual coupons is discounted semiannually for comparability in computation of yield.

The yield indices are simple arithmetic averages of end-of-month secondary market yields for groups of selected straight-debt securities. Yield indices for six categories of bonds have been calculated according to borrower and currency. They are based on issues of good-quality, well-known borrowers. Occasionally the individual issues in each category are changed.

The number of issues represented in each of the indices is as follows:

Long-Term, U.S. companies, U.S. dollar — —ten Euro-bond issues.

Long-term, U.S. companies, Swiss franc — four foreign bond issues.

Long-term, European companies, U.S. dollar — ten Euro-bond issues.

Long-term, European companies, German mark — ten Euro-bond issues.

Long-term, governments, U.S. dollar — six Euro-bond issues (governments of Italy, Denmark, and France).

Euro-currency deposit rates

All data are prime banks' bid rates for deposits in London. Offer rates commonly used as a basis for Euro-dollar lending are generally .125% above bid rates.

II. Domestic markets

Day-to-day money rates

Argentina — 7-day interbank money.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — interbank call money.

Brazil — overnight financing of Treasury bills (LTN) until November 1978. New series as of December 1979, rates paid for federal funds.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48 hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Philippines — interbank call money.

Singapore — interbank overnight money.

South Africa — National Finance Corporation call money.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — effective Federal funds rate.

Euro-dollars — prime banks' bid rate for overnight money.

Treasury bill rates

Argentina — 28-day Treasury bills.

Australia — new issues of 13-week Treasury notes.

Belgium — 3-month Treasury certificates.

Brazil — 91-day Treasury bills (LTN).

Canada — 3-month Treasury bills at tender.

Ireland — 3-month Central Bank Exchequer bills.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Korea — 3-month Treasury bills until May 1981. New series as of June 1981, 1-month Treasury bills sold by Central Bank.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — 91-day Treasury bills at tender.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit.

Sweden — new issues of 3-month Treasury bills.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month repurchase agreements.

Korea — 3-month financial bill.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — 90-day promissory notes.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month negotiable certificates of deposit of investment banks net of taxes.

Canada — 3-month time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Key to data in tables — continued

Ireland — 3-month time deposits.

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 3-month time deposits until April 1979. New series as of May 1979, 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Mexico — 3-month certificates of deposit issued by financieras to corporations for amounts over Ps. 1 million. Higher rates available to individuals.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month time deposits. Higher rates may be negotiated for 12-month or more time deposits in large amounts.

Philippines — 3-month time deposits.

Singapore — 3-month certificates of deposit.

South Africa — negotiable certificates of deposit.

Spain — maximum legal rate for 3-month deposits until May 1981. New series as of June 1981, deposits over 6-months and less than 1-year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — deposits at 6-months' notice.

Switzerland — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for large amounts until December 1978. New series as of January 1979, similar rate for domestic depositors only.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — weighted average investment bank lending rate for multinational companies including tax on financial obligations (IOF).

Canada — prime rate.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .333% prior to July 1978, .25% thereafter, per quarter on the total line of credit.

Philippines — maximum legal rate, for unsecured loans exclusive of service fee.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — maximum legal rate for discounting commercial bills plus a commission of 1% per annum until December 1979. New series as of January 1980, preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — actual interest rate on 3-month loans to prime industrial borrowers.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

United Kingdom — clearing bank base lending rate.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for prime borrowers until December 1978. New series as of January 1979, similar rate for domestic prime borrowers only.

Domestic government bond yields

Argentina — 7% National Adjustable Bond, third series maturing in 1985, inflation adjusted by the Official Correction Index.

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgian National Bank average yield on government bonds maturing in more than five years.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 10% government bond maturing 1983 until December 1977; 10% government bonds maturing 1986 until September 1980. New series as of October 1980, 12% serial bonds maturing 2001.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — Institut National de la Statistique et des Etudes Economiques (INSEE) yield on public and semi-public sector bonds.

Germany — Frankfurter Allgemeine Zeitung (FAZ) 7% public authority bond average until September 1978. New series as of October 1978, FAZ 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — secondary market yield for the 6.1% due 1988 national government bond.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996.

Philippines — Central Bank 5-year Certificate of Indebtedness, regular issue.

South Africa — 25-year government bonds.

Spain — 3- to 4-year government guaranteed bonds. Tax credit of 22% available to corporate and private buyers if held to maturity.

Sweden — 15-year government bonds.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Domestic corporate bond yields

Australia — long-term secured debentures, indicated by Australian United Corporation.

Belgium — Belgian National Bank average yield on private corporate bonds maturing in more than five years.

Canada — McLeod, Young, Weir Co. Ltd., average yield on ten industrial bonds.

France — INSEE tax-adjusted average yield on outstanding private corporate bonds.

Germany — FAZ 6% industrial bond average until September 1978. New series as of October 1978, Bundesbank average yield on industrial bonds

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6% to 6.5% corporate bonds until December 1981. New series as of January 1982, yield of domestic long-term bonds issued by major banks.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies.

United Kingdom — F.T. (Financial Times) Actuaries 20-year debentures and loans until February 1961. New series as of March 1981, F.T. Actuaries 25-year debentures and loans.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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World Financial Markets

Morgan Guaranty Trust Company of New York

December 1982

The undervalued yen:
causes and policy options, 1

Factors underlying the weak yen and its turnaround, 2

Policy options, 5

Statistical appendix, 7

The undervalued yen: causes and policy options

After a period of prolonged weakness, the Japanese yen has rallied in foreign exchange markets, rising by about 11% against the dollar and 7%-8% against the mark and other EMS currencies since late October (see chart). Despite this advance, further appreciation of the yen is needed to reduce the growing trade friction between Japan and its principal trading partners and lessen pressures for competitive depreciations.

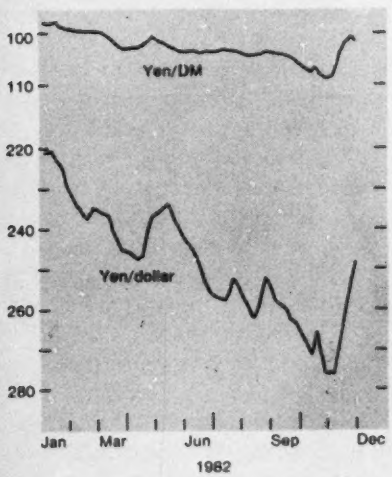
The Japanese authorities have spent $7-$8 billion to support their currency in the foreign exchange markets this year, and both they and United States officials have refuted charges that Japan has deliberately manipulated the yen to enhance the country's competitive position. But Japan's critics remain unconvinced.

Even with its recent strengthening, the yen has depreciated 15% in real terms over the past couple of years — more than any other currency — and is still some 12% below its average level in the second half of the 1970s (see chart). The Japanese authorities have stressed that the yen's undervaluation is mainly a consequence of the exceptional strength of the dollar since President Reagan's election two years ago, which has left it about 23% above its average real effective level in the second half of the 1970s. While this helps to explain some of the yen's undervaluation, it does not tell the full story.

As is shown in the accompanying charts, the mark and other EMS currencies are very close to their average real effective levels of 1975-1979, even though they too have depreciated substantially against the dollar. This is a consequence of the attempt to maintain parities within the EMS bloc and the importance of intra-regional trade, which results in the dollar having relatively small weight in the bilateral trade-weighted indices for the European currencies.

The shifts in relative competitive positions arising from exchange rate changes have attracted considerable attention, particularly at the latest GATT ministerial meeting. Whereas earlier GATT meetings had focused on steps to reduce tariff and nontariff barriers, this time it was recognized that misaligned exchange rates can have the same harmful effect on trade as do trade barriers, and that they can lead to increased protectionism. The weak yen, in particular, has been singled out as a source of trade friction.

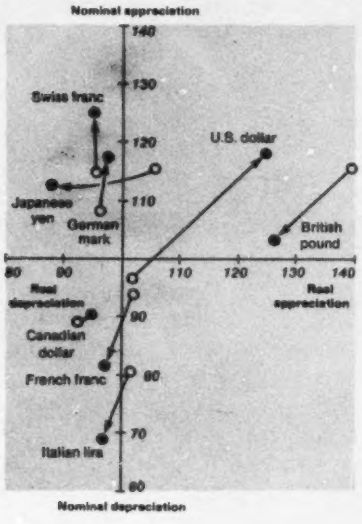
Yen exchange rates



Nominal and real effective exchange rates

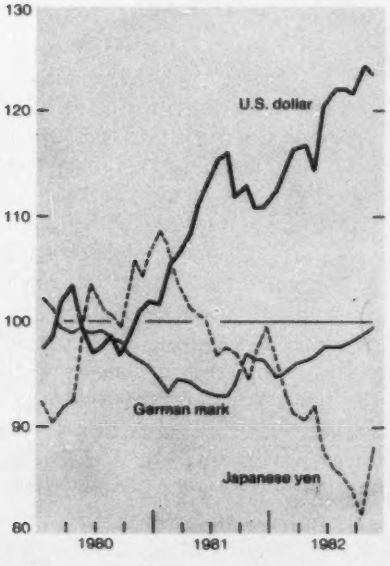
Index 1975–79=100

○ *Nov. 1980* ——→ ● *Nov. 30, 1982*



Real effective exchange rates

Index numbers, 1975-79=100



Although the dollar peaked against the yen and other key currencies in November, the extent of any further weakening in the coming months is far from certain. The dollar's recent decline is mainly a consequence of the easing of U.S. monetary policy, which has resulted in a slowing of private capital inflows into this country. It also stems from the deterioration in the U.S. current account since midyear partly in response to the reduced import capacity of Mexico and other Latin American countries. However, there are clear limits to which the U.S. authorities can permit further interest rate reductions, given the deteriorating U.S. budgetary situation and the very rapid expansion of U.S. money supply recently, which has left the principal monetary aggregates well above the upper end of their respective target ranges.

With any subsequent interest rate declines likely to be very modest, implying only a gradual recovery next year, the U.S. trade and current account deficits should wind up well below those forecast by the Council of Economic Advisers. In addition, there are economic and political factors — particularly, a low rate of U.S. inflation and the attractiveness of the United States as a safe haven for investment — that should continue to support the dollar and leave it well above its long-run average level on a real effective basis.

As regards Japan's international price competitiveness, part of the yen's recent appreciation is likely to be absorbed through reduced profit margins by Japanese exporters. To bring about a more meaningful shift in competitive positions, therefore, there is still necessity for considerable further yen appreciation against the dollar in the near term — e.g., to the 225-235 level. Some signal that the Japanese authorities would welcome such appreciation could have a highly beneficial impact on the world trade environment.

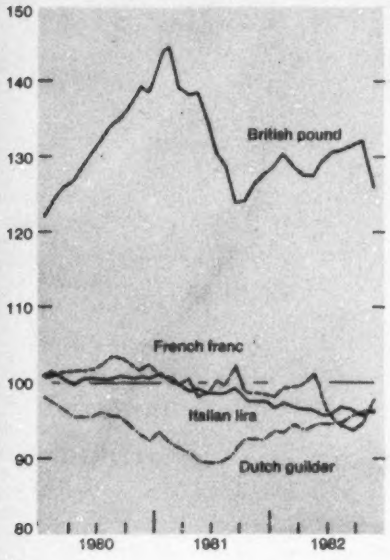
Factors underlying the weak yen and its turnaround

The yen's weakness throughout much of this year has stemmed in part from a Japanese current account performance that has turned out less strong than was expected. Although Japan's current account in the first three quarters of 1982 was in surplus at a $7½ billion seasonally adjusted annual rate, compared with just under $5 billion for 1981, many forecasters at the beginning of this year had projected a surplus in the range of $15-$20 billion for 1982.

With Japanese imports turning out to be much less than anticipated, the principal reason for the current account shortfall has been a surprisingly poor export performance. During the first three quarters of 1982 Japanese merchandise exports in dollar terms were down by 6½% from their level a year ago — the sharpest decline in several decades. Since midyear, the export decline has gathered momentum and become more broad-based, both in terms of geographic areas and in product categories (see Table 1). Even exports to the United States, which had been sustained by the precipitous decline in the yen relative to the dollar, have turned down since June. In September exports to the United States were nearly 12% below their level a year ago.

The drop in Japanese exports resulted in a very modest reduction in Japan's share of manufactures exports of the industrial countries, from 15.7% in the first half of 1981 to 15½% in the first half of this year — a pattern that most likely continued into the third quarter of 1982. It occurred while the United States' share of manufactures exports fell substantially in the comparable peri-

Real effective exchange rates
Index numbers, 1975-79=100



od, from 17.7% to 16.6%. The principal beneficiary of this shift was Germany, whose share climbed by 1½ percentage points to 17.8%, making it the largest exporter of manufactures in the world.

Japan's poor export performance clearly does not stem from lack of Japanese international price competitiveness. Rather, it mainly reflects the weakness of economic activity in Japan's principal export markets. The worldwide economic slowdown has been characterized by widespread inventory destocking and reduction of world trade. In addition, Japanese exports have been adversely affected by export restraints on such items as automobiles and VTRs, which have contributed to a 3% drop in merchandise export volume in the first three quarters of 1982. The volume of auto shipments to the United States in the first ten months of 1982 was down more than 6% over a year ago. Even so, Japan's bilateral trade surplus with the United States in 1982 is expected to be relatively unchanged from $16 billion in 1981, owing to a reduction of Japanese imports from the United States.

Movements in the yen exchange rate over the past couple of years have also been heavily influenced by capital flows, especially long-term capital. From the end of 1980, when Japanese foreign exchange controls were liberalized, until a few months ago, *net* outflows of long-term capital account steadily mounted. After small net inflows in 1980, net long-term outflows rose to nearly $10 billion last year and reached $15 billion in the first nine months of 1982, roughly twice last year's monthly rate (see Table 2).

The $12 billion swing in net long-term capital flows during 1981 was entirely accounted for by an increase in Japanese investment abroad. Almost half of this increase stemmed from purchases of foreign securities, reflecting pent-up demand for portfolio diversification by Japanese investors following liberalization of exchange controls. Japanese portfolio capital outflows have continued through this year. The remainder of the increase in Japanese investment abroad was fairly evenly distributed among direct investment outflows (mainly borrowings by Japanese subsidiaries located abroad from their head offices) and extensions of bank loans and supplier credits abroad.

During 1982, the more than $5 billion *increase* in net long-term capital outflows in the first nine months was entirely a consequence of a slowing of long-term foreign capital flows into Japan. During the first three quarters of this year, foreigners increased their holdings of Japanese securities by only $2.7 billion, after they had made net purchases totaling $12 billion in 1981. The more than $2 billion decline in foreign holdings of Japanese equities during this time was partly a response to diminished confidence in Japan's economic growth prospects in light of sluggish domestic demand and poor export performance. It also reflected some liquidations by OPEC investors partly in response to the disappearance of the OPEC current account surplus.

Over the past few months, however, there has been a significant reduction in net long-term capital outflows. Such outflows slowed to less than a $500 million monthly rate in September-October, and preliminary indications for November suggest a continuation of the recent pattern. The slowdown in net outflows to a large extent is a result of stepped-up net foreign purchases of Japanese securities. Net foreign purchases of Japanese equities amounted to $1½ billion in September-October after no net purchases in the previous two months. In addition, Japanese investors began sell-

Table 1

Japanese exports

	% change from year ago		% of total
	1981	Jan-Sep 1982	Jan-Sep 1982
Total	17.1	—6.4	100
By market area:			
Industrial countries	20.4	—3.6	49.6
U.S.	23.1	—0.8	26.4
E.C.	13.5	—7.4	12.5
Others	22.9	—5.7	10.7
OPEC	23.8	—17.9	12.8
Non-OPEC LDCs	12.1	—3.5	31.8
Communist countries	3.9	—14.7	5.9
By products:			
Food	8.5	—30.8	1.0
Industrial supplies	6.0	—2.8	26.4
Chemicals	0.9	—7.8	4.5
Metals	4.4	2.7	12.7
Textiles	15.0	—10.2	3.4
Capital equipment	24.5	—6.6	41.9
Machinery	24.5	—6.7	24.6
Trans. equipment	26.1	—5.4	13.2
Consumer goods	19.8	—5.9	29.4
Cars	14.5	—2.4	13.0
Others	23.9	—8.5	16.4

ing their holdings of foreign securities, especially in the United States and the United Kingdom.

There was also a marked reduction (more than $2½ billion) in net short-term capital outflows during the third quarter, a result of increased purchases of *gensaki* instruments (repurchase agreements) by foreign investors. Such net purchases were up by more than $500 million in the third quarter, following net sales of $2 billion in the previous quarter.

Two principal factors underlie the recent improvement in the capital account. Since midyear there has been a significant narrowing in Japan's adverse interest rate differentials relative to the United States and other major industrial countries, at both the short and long ends of the maturity spectrum (see charts). At the end of June, for example, rates for three-month Euroyen deposits were 8½ percentage points below those for Eurodollar deposits, nearly 6 percentage points below those for Eurosterling deposits, and about 2 percentage points below those for Euromark deposits. By comparison, the short-term interest differentials against the Eurodollar and Eurosterling at present have been reduced to 2½ and 3½ percentage points, respectively, and that against the Euromark has been completely eliminated.

The same pattern applies to long-term government bond yields; Japan's adverse interest rate differentials vis-à-vis the United States and the United Kingdom have been cut roughly in half since midyear to about 2 percentage points. The long-term interest differential with Germany, moreover, is now slightly in favor of the yen. Given Japan's favorable long-term inflation outlook, current long-term interest differentials in real terms, if anything, favor the yen.

This narrowing of interest rate differentials has resulted from the more accommodative monetary policy stance in the United States in response to the much-weaker-than-expected economy and reduced inflation, and the subsequent easing of monetary policies throughout Europe. European officials, particularly those in Germany and the United Kingdom, seem prepared to match further interest rate reductions in the United States. Officials in Japan, however, clearly do not appear prepared to do so until there is a significant recovery of the yen. The latter view was reinforced by the timely assurance of Governor Mayekawa of the Bank of Japan that the Japanese authorities will not allow the interest differential with the dollar to widen in the future. This has generally been interpreted as meaning that the current Japanese discount rate will be maintained as long as the yen remains significantly undervalued.

The second factor behind the capital account improvement is an apparent change in market sentiment about the prospects of the yen. As the yen's decline approached

Table 2

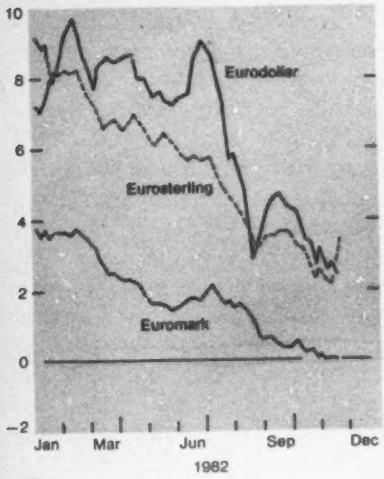
Japanese long-term capital flows

billions of dollars

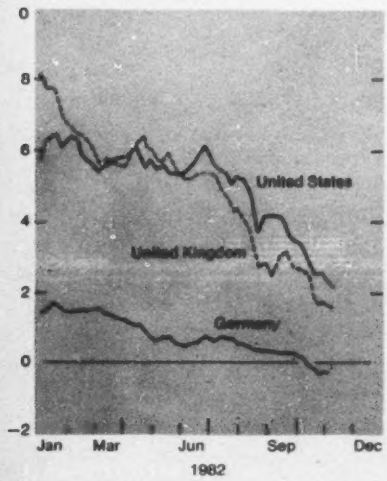
	1980	1981	1982 Q1-Q3	
Foreign investment in Japan	13.2	13.1	5.8	(7.7)*
Direct investment	0.3	0.2	0.2	(0.2)
Loans and trade credits	—0.2	—0.2	—0.2	(—0.2)
Domestic securities	11.9	11.9	2.7	(3.6)
External bonds	1.2	1.4	2.9	(4.8)
Others	0.0	—0.1	0.2	(0.2)
Japanese investment abroad	10.8	22.8	20.8	(27.7)
Direct investment	2.4	4.9	3.8	(5.1)
Loans and trade credits	3.3	7.8	8.0	(10.7)
Securities	3.8	8.8	7.5	(10.0)
Others	1.4	1.3	1.6	(2.1)
Net long-term capital flows	2.3	—9.7	—15.0	(—20.0)
Direct investment	—2.1	—4.7	—3.6	(—4.8)
Loans and trade credits	—3.5	—8.0	—7.8	(—10.4)
Securities (including external bonds)	9.3	4.5	—1.9	(—2.5)
Others	—1.4	—1.4	—1.4	(—1.9)

*Figures in parentheses are at annual rates.

Short-term interest rate differentials
vis-à-vis Euroyen deposits, in percent



Long-term interest rate differentials
vis-à-vis Japanese government bonds, in percent



¥280/dollar, market participants began to revise downward the exchange risks associated with potential yen depreciation compared with the possibility of yen appreciation. This change in market sentiment was accompanied by the announcement of a $1 billion surplus in Japan's basic balance (current account plus long-term capital account) in September — the first such surplus in almost a year. The change in sentiment, in turn, led to the cancellation of scheduled yen-denominated bond issues by foreigners and shifts in leads and lags of trade payments by exporters and importers.

With Japan's current account running a surplus of $9-$10 billion at an annual rate since early 1982 and exchange-market intervention relatively unchanged, it is clear from the above discussion that the recent yen turnaround mainly reflects the improvement in the long-term capital account. The recent narrowing in net private capital outflows is expected to continue into the next few months, with the adverse interest rate differentials for the yen likely to narrow further, albeit more gradually, than in recent months. This development is also likely to be accompanied by a further widening of Japan's current account surplus to well over $10 billion in 1983, leading to a continued basic balance surplus.

With a gradual economic recovery in the United States and the erosion of U.S. international price competitiveness likely to boost U.S. imports next year, Japan's bilateral trade surplus with the United States stands to rise significantly from its current level of about $16-$17 billion at an annual rate. Faced with this situation, further yen appreciation is essential to narrow the prospective Japanese trade and current account surpluses and, thereby, to help ward off increased protectionism.

Policy options

Several options have been suggested that Japan can implement unilaterally to help ensure further yen appreciation in order to reduce protectionist pressures. They include: (1) imposing capital controls, such as an interest equalization tax, to limit capital outflows; (2) changing the mix of fiscal and monetary policies to promote domestic economic recovery; and (3) stepping up foreign exchange market intervention, including the government issuance of foreign currency bonds abroad.

The argument on behalf of capital controls is that they would contain capital outflows, which have accelerated since the December 1980 liberalization of exchange controls. The Japanese authorities, however, have resisted imposing such controls for two reasons. First, they run counter to the broad thrust of liberalization of Japan's domestic financial markets and their integration with the global financial system. Despite the acceleration of liberalization in recent years, there is still considerable foreign criticism that Japan has not moved quickly enough to open its financial markets. Indeed, this year, in response to the weak yen, the Japanese authorities have taken several steps to slow net private capital outflows. They successfully prohibited the purchase by Japanese residents of foreign zero-coupon bonds, tightened restrictions on issuance of *Samurai* bonds (yen-denominated bonds issued by nonresidents), and also deferred the introduction of a secondary market for commercial paper issued by nonresidents.

From a longer-run perspective, however, it is essential that the process of liberalizing Japan's financial markets continue to channel Japan's excess domestic savings efficiently to the rest of the world. Moreover, in addition to opening up